

**TOWNSHIP OF NEPTUNE
SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY**

**ANNUAL FINANCIAL REPORT
YEARS ENDED DECEMBER 31, 2012 AND 2011**

TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY

ANNUAL FINANCIAL REPORT

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INDEPENDENT AUDITORS' REPORT

The Board of Commissioners
Township of Neptune Sewerage Authority
Neptune, New Jersey

We have audited the accompanying financial statements of the Township of Neptune Sewerage Authority (the "Authority") as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, as listed in the accompanying table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and in compliance with audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Township of Neptune Sewerage Authority as of December 31, 2012 and 2011, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5-13 and 35-37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 8, 2013, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Falls & Lane LLP

July 8, 2013

FALLON & LARSEN LLP

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Commissioners
Township of Neptune Sewerage Authority
Neptune, New Jersey

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, the financial statements of the Township of Neptune Sewerage Authority (the "Authority"), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated July 8, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and the audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

July 8, 2013

Falk + Jam LLP

MANAGEMENT DISCUSSION AND ANALYSIS

TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY MANAGEMENT DISCUSSION AND ANALYSIS

INTRODUCTION

Mission

The Authority was created to protect and preserve the vital ecology of its service area and that of adjoining areas. The Authority accomplishes this by effectively treating wastewater and recycling sage, clean water back into the Atlantic Ocean. TNSA efficiently meets or surpasses all mandated federal and state regulations and standards.

The Authority extends its mission beyond the geographical boundaries of its service area by affiliating with and participating in various organizations and activities dedicated to preserving the environment. By cooperating with many watershed groups and agencies operating within its Service Area, TNSA further demonstrates its commitment to environmental protection.

Responsibility and Controls

The Authority has prepared, and is responsible for, the financial statement and related information included in this report. A system of internal accounting controls is maintained to provide reasonable assurance that assets are safeguarded and the books and records reflect only authorized transactions. Limitations exist in any system of internal controls. However, recognizing that the cost of a system should not exceed its benefits, management believes its system of internal accounting controls maintains an appropriate cost/benefit relationship.

The Authority's system of internal accounting controls is evaluated on an ongoing basis by the Authority's financial staff. Independent external auditors also consider certain elements of the internal control system in order to determine their auditing procedures for the purpose of expressing an opinion on the financial statements.

Management believes that its policies and procedures provide guidance and reasonable assurance that the Authority's operations are conducted in accordance with management's intentions and to a high standard of business ethics.

In management's opinion, the financial statements present fairly, in all material respects, the financial position, results of operations and cash flow of the Authority in conformity with accounting principles generally accepted in the United States of America. The unqualified opinion of our independent external auditors, Fallon & Larsen, LLP is included in this report.

Management's Discussion and Analysis (MD&A) provides an introduction to, and should be read with, the basic audited Financial Statements and supplementary information. It presents management's analysis of the Authority's financial condition and performance. Financial Statement data, key financial and operational indicators, the operating budget, bond resolutions and other management tools were used for this analysis.

Financial Highlights

- Total assets increased \$25,243.
- Total liabilities decreased by \$1,531,889 due primarily to the payment of bonded indebtedness with no additional borrowing.
- Operating expenses increased \$116,266.
- Net position at year-end was \$33,449,525 an increase of \$1,557,132.

Overview of Annual Financial Report

The Financial Statements utilize full accrual accounting methods such as are applicable for similar business activities in the private sector. However, rate-regulated accounting principles applied to private utilities are not used by government utilities. The financial statements included a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position, a Statement of Cash Flows; and Notes to the Financial Statements.

The Statement of Net Position presents the Authority's year-end financial position on a full accrual, historical cost basis. It provides information on Authority assets and liabilities, with the difference reported as net position. Over time, increases and decreases in net position are an indicator of whether the financial position of the Authority is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Position present the results of business activities for the fiscal year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to change occurs, regardless of the timing of related cash flows.

The Statement of Cash Flows presents changes in cash and cash equivalents resulting from operational, financing, and investing activities. Receipts and disbursements are presented on a cash, not an accrual, basis.

The Notes to the Financial Statements present such required disclosures and information as are essential to fully understanding material data provided in the statements, including significant policies, balances, activities, risks, obligations, commitments, contingencies and subsequent events, if any.

Summary of Organization and Business

TNSA, a public body corporate and politic, was created pursuant to Chapter 138 of the Laws of 1946 of the State of New Jersey (the "Original Act"). It serves seven (7) municipal entities: Neptune Township, Ocean Grove, Bradley Beach, Avon-by-the-Sea, Neptune City, Tinton Falls and Wall Township. Each customer municipality must comply with the Authority's Rules and Regulations, wherein uniform requirements for system users assure the Authority's compliance with applicable federal and state laws.

The Authority owns and operates an 8.5 Million Gallons Per Day (MGD) wastewater treatment system consisting of a secondary trickling filter treatment facility, with an aerated stabilization pond, and a new "state of the art" biological aerated filtration plant that is used as a polishing point before discharging effluent a mile into the Atlantic Ocean via an Authority-owned outfall pipe. The system includes an elaborate series of trunk lines and force mains, plus one pump station (Laird Ave.) that handles the majority of the wastewater flow from customer municipalities.

TNSA has completed many upgrades to its treatment facility over the past ten years. Most notable are: 1) Replacement of trickling filter media, from stone to cross flow plastic, 2) Upgrading the aeration system and cleaning the aerated stabilization pond; and 3) installation of a "state of the Art" biological-filtration-oxygenated-reactor (BIOFOR) system.

TNSA's treatment facility is divided into three complete sections called "trains". Each train consists of a muffin monster (grinder), flow meter, grit chamber, primary clarifier, trickling filter (with media and distributor), secondary clarifier and a chlorine contact tank. After wastewater has flowed through a treatment train it is pumped from the chlorine contact tank up to the aerated stabilization pond before entering the BIOFOR system.

The BIOFOR system is the last treatment process the wastewater goes through before being discharged into the Atlantic Ocean. The BIOFOR treatment system employs a biological fixed-film technology, using proprietary media that acts as both a biological contactor and a filter, thereby eliminating the need for separate clarification. The primary advantages of the BIOFOR system, when compared to conventional activated sludge systems, are reduced space requirements, elimination of secondary clarifiers, and improved treatment of cold and diluted wastewaters, rapid startup and fully automated operation.

A five member board of Commissioners, appointed by Neptune Township, governs the Authority. An Executive Director, appointed by the Commissioners, administers the Authority. Including the Executive Director, TNSA has 20 full time employees and 1 part time administrative employee.

The Authority has no power to levy or to collect taxes. Operation and maintenance costs are funded from service fees and other charges. Acquisition and construction of capital assets are funded through Operating Revenues, the General Fund, Federal and State Grants, Sewer Revenue Bonds and New Jersey Environmental Infrastructure Trust Financing Program Loans.

Trends

In the early 1960s, the Township of Neptune constructed a wastewater treatment plant with a capacity of 2.5 million gallons per day to serve the western part of the Township. The plant employed the trickling filter process to provide "secondary treatment" according to then-current New Jersey treatment standards.

The Public Sanitary Sewerage Facilities Assistance Act of 1965 authorized municipal participation in federal grants-in-aid programs for wastewater treatment. In 1972, in furtherance of the State's regionalization policy, the Township of Neptune Sewerage Authority (TNSA) was created to implement build and operate pollution abatement facilities for Avon-by-the-Sea, Bradley Beach, Neptune City, Neptune Township (including Ocean Grove) and parts of Tinton Falls and Wall Township.

Under the Federal Water Pollution Control Act Amendments of 1972 (PL92-500), the United States Environmental Protection Agency ("USEPA") provided substantial funding of wastewater treatment facilities, provided those facilities were designed according to USEPA national standards. TNSA's plan called for the nucleus of the plant to be Neptune Township's original 2.5 million gallon per day trickling filter plant, called "Train #1". The Authority would add a parallel, interconnected, 2.5 million gallon per day "Train #2", and a parallel, essentially separate, 3.5 million gallon per day "Train #3".

Over time, as USEPA's standards became more stringent, additional treatment procedures were required. An aerated effluent stabilization lagoon, to enhance the trickling filter process, added in 1976. The State of New Jersey and USEPA provided 14.5 million of grants-in-aid to TNSA for construction.

In 1977, the State adopted the Water Pollution Control Act (N.J.S.A. 58:10A-1 et seq.) to address requirements of the Federal Clean Water Act of 1977 (PL 95-217). Under the New Jersey Act, wastewater treatment plants were required to obtain permits for the discharge of effluents to State waters. The permits would contain specific effluent limitations for each wastewater discharger based on so-called "conventional pollutants" (oxygen demand, suspended solids, coliforms, and certain physical/chemical parameters widely used at the time). The same pollutants had been the basis for both design and approval of the original TNSA treatment plant. Eventually, USEPA delegated permitting authority to the New Jersey Department of Environmental Protection ("NJDEP") under the New Jersey Pollutant Discharge Elimination System ("NJPDES").

The Clean Water Act emphasized toxic substances that had not been addressed by the USEPA national standards nor, therefore, by most 1970s plant designs. In 1986, NJDEP added a limit on effluent acute toxicity to TNSA's permit. Consequently, from January 1987 through December 1990, TNSA failed 56 percent of its quarterly toxicity tests, although maintaining a solid record of passing grades for conventional pollutants.

NJDEP did not cite TNSA for the failures because its plant had not been designed to handle toxicity. However, in 1994 and under 1991 amendments to NJ's Pollution Control Act (N.J.S.A. 58:10A-1 et seq.), NJDEP was compelled to initiate enforcement action. On June 26, 1995, TNSA accepted an Administrative Consent Order ("ACO") with NJDEP that temporarily set aside toxicity limitations in its permit while the Authority sought the causes of, and remedies to, the toxicity problem.

Events

TNSA embarked on a comprehensive program aimed at bringing the treatment facility to complete compliance with all NJDEP parameters. The comprehensive program included:

- Pilot studies (GAC/Activated Sludge/BIOFOR)
- Toxicity identification, evaluation and reduction studies
- Service area studies and surveys

As a result of many plant upgrades the Authority has effected since 1996, and for the first time in well over a decade, TNSA is out of NJDEP "ACO" program. The plant has passed the majority of its bioassay tests with better than 100% results and no measurable trace of toxicity.

Financial Analysis

Financial Condition

The Authority's financial condition remained strong at year end with adequate liquid assets, a reasonable level of unrestricted net position, and reliable facilities and systems to meet demand. The Authority's financial condition, technical capabilities, and operating and modernization plans are secure.

	<u>2012</u>	<u>2011</u>
Total Current Assets	\$15,544,745	\$14,858,531
Total Noncurrent Assets	165,049	188,146
Net Capital Assets	<u>33,037,725</u>	<u>33,675,599</u>
Total Assets	<u>\$48,747,519</u>	<u>\$48,722,276</u>
Total Current Liabilities Payable		
From Unrestricted Assets	\$ 1,874,439	\$ 2,465,197
Total Current Liabilities Payable		
From Restricted Assets	3,855,263	3,748,298
Total Noncurrent Liabilities	<u>9,568,292</u>	<u>10,616,388</u>
Total Liabilities	<u>\$15,297,994</u>	<u>\$16,829,883</u>
Total Net Position Invested in Capital		
Assets, Net of Related Debt	22,773,708	21,639,719
Total Restricted Net Position	1,508,334	1,661,508
Total Unrestricted Net Position	<u>9,167,483</u>	<u>8,591,166</u>
Total Net Position	<u>\$33,449,525</u>	<u>\$31,892,393</u>
Total Liabilities and Net Position	<u>\$48,747,519</u>	<u>\$48,722,276</u>

Results of Operations

Operations and administrative functions were conducted as intended by, and within the budget established by, TNSA's Board of Commissioners:

	<u>2012</u>	<u>2011</u>
Total Operating Revenues	<u>\$7,503,651</u>	<u>\$ 7,504,290</u>
Operating Expenses	4,388,285	4,283,544
Depreciation	<u>1,090,968</u>	<u>1,079,443</u>
Total Operating Expenses	<u>\$5,479,253</u>	<u>\$5,362,987</u>
Operating Income	<u>2,024,398</u>	<u>2,141,303</u>
Nonoperating Revenues/(expenses):		
Interest Income	21,396	46,994
Disaster Relief Aid	59,566	-
Gain on sale of fixed assets	2,100	5,370
Loss on bond refunding	(202,904)	-
Interest Expense	(308,870)	(472,659)
Amortization of Deferred Charges	<u>(38,554)</u>	<u>(42,534)</u>
Total Nonoperating Revenues (expenses)	<u>(467,266)</u>	<u>(462,829)</u>
Net Income	1,557,132	1,678,474
Net Position, January 1	<u>31,892,393</u>	<u>30,213,919</u>
Net Position, December 31	<u>33,449,525</u>	<u>31,892,393</u>

Statement of Cash Flows

Cash flow was adequate to meet operating, capital and debt requirements.

	<u>2012</u>	<u>2011</u>
Net Cash Provided by Operating Activities	\$3,683,422	\$ 2,250,499
Net Cash Used in Capital and Related Financing Activities	(2,690,520)	(2,565,160)
Net Cash Provided by Investing Activities	<u>21,396</u>	<u>46,994</u>
Net Increase in Cash and Cash Equivalents	1,014,298	(267,667)
Balance, Beginning of Year	<u>\$13,114,395</u>	<u>\$13,382,062</u>
Balance, End of Year	<u>\$14,128,693</u>	<u>\$13,114,395</u>

Rates, Billing and Collection Processes

The annual Service Charge to each of TNSA's seven customers is set by allocating the year's operating and debt service requirements among the customers, based on their actual prior-year inflows and capacity ownership, respectively.

Service Charges are certified to each customer not later than January 31st of each year and are due, in equal installments on and be made on or before the 1st day of April, July, October and January. Pursuant to the "Sewerage Authorities Law" (N.J.S.A. 40:14A), customers are assessed interest at the rate of one and one-half percent (1.5%) per month on any Service Charge installment, or portion thereof, unpaid beyond its due date.

Capital Improvement Program and Debt Administration

TNSA's 5-Year Capital Improvement Program ("Plan") was prepared in consultation with, and reviewed by, the Authority's engineer, commissioners, and staff and presented as directed by the Division of Local Government Services ("DLGS"), State of New Jersey. Funding the plan will not result in extraordinary increases in annual Service Charges to customers.

	<u>Est. Total Cost</u>	<u>Unreserved Retained Earnings</u>	<u>Renewal & Replacement Reserve</u>	<u>Debt Auth.</u>	<u>Other Sources</u>
Vehicle	\$ 16,000	\$ 16,000			
Laird Avenue Pump	\$ 98,000	\$ 98,000			
Waste Stack Burner	\$ 250,000	\$ 250,000			
Digester Cleaning	\$ 300,000	\$ 300,000			
Repair Plant Roadways	\$ 200,000	\$ 200,000			
Aerated Stabilization Pond Cleaning and Rehabilitation	\$ 500,000	\$ 500,000			
Digester Rehabilitation	\$3,000,000			\$3,000,000	
Grit Chamber 3 & 4 Rehabilitation	\$2,000,000			\$2,000,000	
Ocean Outfall Rehabilitation	\$4,000,000			\$4,000,000	
Total	<u>\$10,364,000</u>	<u>\$1,364,000</u>		<u>\$9,000,000</u>	

Closing Comments

The Financial condition of the Township of Neptune Sewerage Authority is strong. Its facilities, staff, management, and its planning and funding options, are sufficient to assure TNSA's ability to meet its operating responsibilities well into the future.

FINANCIAL STATEMENTS

**TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY
COMPARATIVE STATEMENT OF NET POSITION
DECEMBER 31, 2012 AND 2011**

	<u>Assets</u>	
	<u>2012</u>	<u>2011</u>
Current Assets:		
Unrestricted Assets:		
Petty cash	\$ 203	\$ 203
Cash and cash equivalents	7,085,352	5,150,718
Accounts receivable:		
Customer accounts receivable	1,336,773	1,656,933
Other receivables	79,118	87,203
Prepaid expenses	<u>161</u>	<u>-</u>
Total Unrestricted Assets	<u>8,501,607</u>	<u>6,895,057</u>
Restricted Assets:		
Cash and cash equivalents	<u>7,043,138</u>	<u>7,963,474</u>
Total Restricted Assets	<u>7,043,138</u>	<u>7,963,474</u>
Total Current Assets	<u>15,544,745</u>	<u>14,858,531</u>
Deferred Assets:		
Unamortized deferred charges	<u>165,049</u>	<u>188,146</u>
Total Deferred Assets	<u>165,049</u>	<u>188,146</u>
Capital Assets:		
Land	153,900	153,900
Treatment plant	42,397,718	42,397,718
Pumping station	3,459,453	3,370,453
Force main and ocean outfall	6,224,337	6,224,337
Office furniture and equipment	195,593	224,455
Vehicles	274,662	273,330
Construction in Progress	<u>238,191</u>	<u>-</u>
	52,943,854	52,644,193
Less: accumulated depreciation	<u>19,906,129</u>	<u>18,968,594</u>
Net capital assets	<u>33,037,725</u>	<u>33,675,599</u>
Total Assets	<u>\$ 48,747,519</u>	<u>\$ 48,722,276</u>

See accompanying notes to financial statements.

**TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY
COMPARATIVE STATEMENT OF NET POSITION (continued)
DECEMBER 31, 2012 AND 2011**

Liabilities and Net Position

	<u>2012</u>	<u>2011</u>
Current Liabilities (payable from unrestricted assets):		
Accounts payable	\$ 463,847	\$ 243,424
Accrued liabilities	145,592	147,833
Current portion of long-term debt	1,085,000	1,835,000
Accrued interest payable	<u>180,000</u>	<u>238,940</u>
Total Current Liabilities (payable from unrestricted assets)	<u>1,874,439</u>	<u>2,465,197</u>
Current Liabilities (payable from restricted assets):		
Reserve for Escrow	1,760	1,760
Security held for member municipalities	<u>3,853,503</u>	<u>3,746,538</u>
Total Current Liabilities (payable from restricted assets)	<u>3,855,263</u>	<u>3,748,298</u>
Non-Current Liabilities:		
Unrestricted Liabilities:		
Accrued employee benefits	389,275	415,508
Long-term debt (net of discounts of \$33,287 in 2011 and inclusive of premiums of \$579,017 and \$169,167 in 2012 and 2011, respectively)	<u>9,179,017</u>	<u>10,200,880</u>
Total Non-Current Liabilities	<u>9,568,292</u>	<u>10,616,388</u>
Total Liabilities	<u>15,297,994</u>	<u>16,829,883</u>
Net Position		
Invested in capital assets, net of related debt	22,773,708	21,639,719
Restricted Net Position:		
Bond service reserve	1,258,334	1,411,508
Renewal and replacement	250,000	250,000
Unrestricted Net Position	<u>9,167,483</u>	<u>8,591,166</u>
Total Net Position	<u>33,449,525</u>	<u>31,892,393</u>
Total Liabilities and Net Position	<u>\$ 48,747,519</u>	<u>\$ 48,722,276</u>

See accompanying notes to financial statements.

**TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY
COMPARATIVE STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
Operating Revenues:		
Service charges of member municipalities	\$ 7,502,200	\$ 7,502,200
Miscellaneous income	<u>1,451</u>	<u>2,090</u>
Total Operating Revenues	<u>7,503,651</u>	<u>7,504,290</u>
Operating Expenses:		
Personnel costs and benefits	2,443,931	2,382,404
Administrative and general	310,164	372,717
Plant, system and maintenance	1,634,190	1,528,423
Depreciation	<u>1,090,968</u>	<u>1,079,443</u>
Total Operating Expenses	<u>5,479,253</u>	<u>5,362,987</u>
Operating Income	<u>2,024,398</u>	<u>2,141,303</u>
Non-Operating Revenue (Expenses):		
Interest income	21,396	46,994
Disaster relief aid	59,566	-
Gain on sale of fixed assets	2,100	5,370
Loss on bond refunding	(202,904)	-
Interest expense	(308,870)	(472,659)
Amortization expense	<u>(38,554)</u>	<u>(42,534)</u>
Total Non-Operating Revenue (Expenses)	<u>(467,266)</u>	<u>(462,829)</u>
Net Income	1,557,132	1,678,474
Net Position, January 1	<u>31,892,393</u>	<u>30,213,919</u>
Net Position, December 31	\$ <u>33,449,525</u>	\$ <u>31,892,393</u>

See accompanying notes to financial statements.

**TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,**

	<u>2012</u>	<u>2011</u>
Cash Flows from Operating Activities:		
Cash Received from Member Municipalities	\$ 7,822,360	\$ 6,319,905
Cash Paid to Suppliers	(2,461,823)	(2,460,632)
Cash Paid to Employees	(1,678,566)	(1,610,864)
Other Operating Receipts	<u>1,451</u>	<u>2,090</u>
Net Cash Flows from Operating Activities	<u>3,683,422</u>	<u>2,250,499</u>
Cash Flows from Capital and Related Financing Activities:		
Acquisition of Property, Plant and Equipment	(428,520)	(248,007)
Principal Payments on Bonds Payable	(1,895,000)	(1,810,000)
Excess Proceeds from Bond Refunding	4,815	-
Sale of Fixed Assets	2,100	5,370
Proceeds from Disaster Relief Aid	29,783	-
Interest Expense	<u>(403,698)</u>	<u>(512,523)</u>
Net Cash Used in/(Provided by) Capital and Related Financing Activities	<u>(2,690,520)</u>	<u>(2,565,160)</u>
Cash Flows from Investing Activities:		
Interest Received on Investments	<u>21,396</u>	<u>46,994</u>
Net Cash Provided by Investing Activities	<u>21,396</u>	<u>46,994</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	1,014,298	(267,667)
Cash and Cash Equivalents at Beginning of Year	<u>13,114,395</u>	<u>13,382,062</u>
Cash and Cash Equivalents Ending	\$ <u>14,128,693</u>	\$ <u>13,114,395</u>
Reconciliation to Balance Sheet:		
Unrestricted Cash and Cash Equivalents	\$ 7,085,555	\$ 5,150,921
Restricted Cash and Cash Equivalents	<u>7,043,138</u>	<u>7,963,474</u>
	\$ <u>14,128,693</u>	\$ <u>13,114,395</u>

See accompanying notes to financial statements.

**TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY
STATEMENT OF CASH FLOWS (continued)
FOR THE YEARS ENDED DECEMBER 31,**

	<u>2012</u>	<u>2011</u>
Reconciliation of Operating Income to Net Cash Flows from Operating Activities:		
Operating Income	\$ 2,024,396	\$ 2,141,303
Depreciation	<u>1,090,968</u>	<u>1,079,443</u>
	<u>3,115,364</u>	<u>3,220,746</u>
Change in Assets and Liabilities:		
(Increase)/Decrease in Receivables	320,160	(1,182,295)
(Increase)/Decrease in Other Receivables	7,924	(41,985)
Increase/(Decrease) in Accounts Payable	220,423	15,452
Increase/(Decrease) in Accrued Expenses	(87,414)	105,924
Increase/(Decrease) in Security Held for Member Municipalities	<u>106,965</u>	<u>132,657</u>
	<u>568,058</u>	(970,247)
Net Cash Flows from Operating Activities	\$ <u>3,683,422</u>	\$ <u>2,250,499</u>

During 2012 the Authority refinanced its 2003A Bonds. \$5,930,000 of new bonds were issued and \$6,250,000 of 2003A Bonds were redeemed. The new bonds were sold at a premium of \$513,057 and costs of issuance were \$117,294. The 2003A Bonds were called on July 1, 2012 at which time \$136,443 of interest accrued to date was paid.

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 1 **ORGANIZATION**

Reporting Entity

The Township of Neptune Sewerage Authority, a public body, corporate and political of the County of Monmouth, State of New Jersey, was organized and exists under the Sewerage Authority Law, constituting Chapter 138 of the Pamphlet Laws of 1946, of the State of New Jersey, and the acts amendatory thereof and supplemental thereof. The Authority was established in accordance with the provisions of the Act in order to own and operate a regional sewerage treatment system to serve the Townships of Neptune and Wall, Ocean Grove Sewerage District, and the Boroughs of Avon-by-the-Sea, Bradley Beach, Tinton Falls, and Neptune City. The Act authorized the Authority to issue its bonds and other obligations in an unlimited aggregate amount in order to accomplish its public purpose of promoting the relief of waters in or bordering the State of New Jersey from pollution by providing adequate sewerage treatment and disposal services to the Service Area.

The Authority provides sewerage treatment to its seven member municipalities in accordance with service agreements established with each municipality. The service agreements obligate each member to the Authority for their proportionate share of the Authority's operating expenses, debt service and required reserve additions to the extent not met by other sources.

The Authority's financial statements include all accounts of the Authority's operations.

The criteria for including organizations as component units within the Authority's reporting entity, as set forth in Section 2100 of GASB's Codification of Government Accounting and Financial Reporting Standards, including whether:

- the organization is legally separate (can sue and be sued in their own name)
- the Authority holds the corporate powers of the organization
- the Authority appoints a voting majority of the organization's board
- the Authority is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the Authority
- there is a fiscal dependency by the organization on the Authority

Based on the above criteria, the Authority has no component units.

Based on the above criteria, the Authority is a component unit of the Township. The Authority issues separate financial statements from the Township. However, if the Township presented its financial statements in accordance with GAAP, these financial statements would be included with the Township's on a blended basis.

TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 2 **SIGNIFICANT ACCOUNTING POLICIES**

A. **Basis of Presentation and Accounting**

The Authority's financial statements are presented on the full accrual basis in accordance with the accounting principles generally accepted in the United States of America. The Authority applies all Government Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, and the Accounting Principles Board (APB) of the Committee on Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

All activities of the Authority are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprise where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Total Net Position (i.e., total assets net of total liabilities) are segregated into invested capital assets, net of related debt; restricted for capital activity; restricted for debt service; and unrestricted components.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date, and reported amounts of revenues and expenses during the reporting period. Estimates are used to determine depreciation expense, the allowance for doubtful accounts and certain claims and judgment liabilities, among other accounts. Actual results may differ from those estimates.

TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 2 **SIGNIFICANT ACCOUNTING POLICIES (continued)**

B. Budgetary Accounting

Each year the Authority adopts a budget which is approved by the State of New Jersey, Department of Community Affairs, Division of Local Government Services. The budget may be amended by resolution of the Board of Commissioners of the Authority. The budgetary basis of accounting is utilized to determine the Authority has sufficient cash to operate and pay debt service. As such, certain items such as bond payments are included in budgetary expenses while depreciation is not included. A reconciliation from the budgetary basis to the statement of revenues, expenses and changes in fund equity is included in Schedule 1 of the Supplementary Information.

C. Cash, Cash Equivalents and Investments

New Jersey Authorities are required by N.J.S.A. 40A:5-14 to deposit public funds in a bank or trust company having its place of business in the State of New Jersey and organized under the laws of the United States or of the State of New Jersey or the New Jersey Cash Management Fund. N.J.S.A. 40A:5-15.1 provides a list of securities which may be purchased by New Jersey authorities. The Authority is required to deposit funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act ("GUDPA"). GUDPA was enacted in 1970 to protect government units from a loss of funds on deposit with a failed banking institution in New Jersey.

N.J.S.A. 17:9-42 requires government units to deposit public funds only in public depositories located in New Jersey, where the funds are secured in accordance with the Act.

Public funds are defined as the funds of any government unit. Public depositories include banks (both state and national banks), savings and loan institutions and savings banks, the deposits of which are federally insured. All public depositories pledge collateral, having a market value of five percent of the average daily balance of collected public funds, to secure the deposits of government units. If a public depository fails, the collateral it has pledged, plus the collateral of all other public depositories in the collateral pool, is available to pay the full amount of their deposits to the government units.

For the Statements of Cash Flows, the Authority combines the unrestricted cash with the restricted cash and cash equivalents. The Authority considers investments with maturities of three months or less at the time of purchase to be cash equivalents.

TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 2 **SIGNIFICANT ACCOUNTING POLICIES (continued)**

D. Restricted Accounts

In accordance with the Bond Resolutions and the Trust Agreement securing the 2010 and 2012 Revenue Bonds (“the Bonds”), the Authority has established various cash and investment accounts with a trustee with restrictions on the use of funds. These funds, accounts and the related principal restrictions are as follows:

Construction Fund - The Construction Fund has been established for the payment of the cost of each project for which bonds have been issued under the Trust Agreement. Upon completion of the construction project, any funds remaining and not reserved for unpaid costs shall be applied to payment of costs of any portion of the system, payment of any principal or interest on the bonds, payment of any sinking fund installment, or redemption of any bonds.

Revenue Fund - All pledged revenues as defined in the Trust Agreement are required to be paid over to the Trustee upon receipt and deposited in the Revenue Fund. Transfers from the Revenue Fund shall be made on the first business day of each month in amounts needed to establish the respective fund balances as follows:

Operating Fund - to increase the amount which is on deposit in the Operating Fund to an amount equal to the Authority’s net operating expenses for the current month and the next succeeding three months.

Bond Service Fund - to equal the interest and principal falling due on the Bonds during the fiscal year.

Bond Reserve Fund - to maintain or provide an amount equal to the average annual debt service requirement as defined in the Trust Agreement in the bonds for any succeeding fiscal year.

Renewal and Replacement Fund - to equal the reasonably required reserve called for by the Trust Agreement.

General Fund - to deposit therein the balance of the pledged revenues to the extent any monies are available.

Operating Fund - to pay all reasonable and necessary costs of operating, maintaining and repairing the sewer system.

Bond Service Fund - to pay principal and interest on the bonds.

TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Restricted Accounts (continued)

Bond Reserve Fund - to make up any deficiencies in the Bond Service Fund or any other Sinking Fund Account. In addition to transfers from the Revenue Fund, monies from the Renewal and Replacement and the General Funds may be transferred into this Fund.

Renewal and Replacement Fund - If the amount in the Bond Reserve Fund shall be less than the Bond Reserve requirement, the Trustee shall withdraw from the General Fund and then from the Renewal and Replacement Fund, and pay into the Bond Reserve Fund the amount needed to increase the amount in the Bond Reserve Fund so that it equals the Bond Reserve requirement. Monies in this Fund may be applied to the reasonable and necessary expenses of the Authority with respect to the Sewer System for major repairs, renewals, replacements or maintenance items of a type not recurring annually or at shorter intervals.

General Fund - If the amount in the Bond Reserve Fund shall be less than the Bond Reserve requirement the Trustee shall withdraw from the General Fund and pay into the Bond Reserve Fund the amount needed to increase the amount in the Bond Reserve Fund so that it equals the Bond Reserve requirement. Under the condition set forth in the Trust Agreement, the Trustee may transfer monies from the General Fund to the Revenue Fund or to the Authority to be spent or any lawful purpose.

E. Property, Plant and Equipment

Property, plant and equipment are stated at cost. The cost of property, plant and equipment is depreciated over its estimated useful life, by the straight-line method. Major improvements to existing plant and equipment are capitalized. Repairs and maintenance that do not extend the economic life of plant and equipment are charged to expense as incurred. Upon the sale or retirement of property, plant and equipment, the cost and related accumulated depreciation is eliminated from the accounts and any related gain or loss is reflected in the Statement of Revenues, Expenses and Changes in Net Position.

System construction costs are charged to construction in progress until such time as given segments of the system are completed and placed in operation. The assets are then transferred to the appropriate property and plant account and depreciated on a straight-line basis over the asset's estimated useful life.

**TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Property, Plant and Equipment (continued)

The estimated useful lives of the assets are:

Treatment Plant	75 years
Force Main and Ocean Outfall	75 years
Biofor Treatment Plant	40 years
Pumping Station	10-40 years
Equipment	5-15 years
Vehicles	5 years
Office Furniture	5 years

F. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

G. Investment Income

Investment Income on amounts held by the Authority as security for member municipalities is restricted and added to principal amounts for reinvestment. All other investment income earned is unrestricted and is utilized to defray the cost of operations and debt service.

H. Capitalized Interest

The Authority capitalizes interest on self-constructed assets during the period of construction. The amount of interest cost capitalized on qualifying assets acquired with proceeds of tax-exempt borrowings that are externally restricted to finance acquisition of specified assets is all interest cost of the borrowing less any interest earned on related interest-bearing investments acquired with such unexpended proceeds from the date of the borrowings until the assets are substantially complete and are ready for their intended use. Interest cost of tax-exempt borrowings is eligible for capitalization on other qualifying assets of the Authority when the specified qualifying assets are no longer eligible for interest capitalization. The Authority did not capitalize interest costs during the periods ended December 31, 2012 and 2011.

**TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Inventory of Supplies

Minimal inventories of replacement parts, chemicals and supplies are maintained by the Authority and are expensed at the time the individual items are purchased.

J. Income Taxes

The Authority is exempt from federal and state income taxes as it is a public body politic and corporate of the State of New Jersey.

K. Net Position

Net position comprises the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net position is classified in the following three components: net investment in capital assets, restricted, and unrestricted. Net invested in capital assets consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted includes resources with external restrictions. Unrestricted consists of all other resources not included in the above categories.

NOTE 3 CASH, CASH EQUIVALENTS, and INVESTMENTS

A. Deposits

Cash and Cash Equivalents consist of the following at December 31:

	<u>2012</u>	<u>2011</u>
Cash	\$ 67,956	\$ 71,003
Money Market Funds	<u>14,060,737</u>	<u>13,043,392</u>
	<u>\$ 14,128,693</u>	<u>\$ 13,114,395</u>

As of December 31, 2012, the Authority's Cash and Cash Equivalents are insured or collateralized with securities held by the Authority or by its agent in the Authority's name.

The carrying amount of the Authority's cash and cash equivalents at December 31, 2012 was \$14,128,693 and the bank balance was \$14,170,387. Of the bank balance, \$372,612 was covered by federal depository insurance, and the remaining \$13,797,775 was covered under the unit certificate of eligibility as required by New Jersey statutes.

**TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

NOTE 3 CASH, CASH EQUIVALENTS, and INVESTMENTS (continued)

A. Deposits (continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a failure of a financial institution or counterparty to a transaction, the Authority will not be able to recover the value of its investment. The Authority mitigates this risk by depositing or investing with public depositories protected from loss under the provisions of the GUPTA.

B. Investments

The Authority had no investments at December 31, 2012 and 2011.

NOTE 4 PROPERTY, PLANT AND EQUIPMENT

Property, Plant and Equipment consisted of the following at December 31:

	<u>Balance</u> <u>Dec. 31, 2011</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>Dec. 31, 2012</u>
Land	\$ 153,900	\$ -	\$ -	\$ 153,900
Plant and Improvements	51,992,508	197,903	108,903	52,081,508
Equipment and Vehicles	497,785	17,000	44,530	470,255
Construction in Progress	-	<u>238,191</u>	<u>-</u>	<u>238,191</u>
	<u>52,644,193</u>	<u>453,094</u>	<u>153,433</u>	<u>52,943,854</u>
Less: Accumulated Depreciation	<u>18,968,594</u>	<u>1,090,968</u>	<u>153,433</u>	<u>19,906,129</u>
Property, Plant and Equipment, Net	<u>\$ 33,675,599</u>	<u>\$ (637,874)</u>	<u>\$ -</u>	<u>\$ 33,037,725</u>

TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 5 DEFERRED CHARGES

Deferred Charges relate to the issuance costs, including legal, printing and financing costs, of the 2010 and 2012 Sewer Revenue Bond Series. These charges are being amortized on the interest method over the life of the respective bonds. During 2012, the 2003A Sewer Revenue Bond Series was refunded and the deferred charges written off as part of the loss on bond refunding.

Deferred Charges consist of the following at December 31:

	<u>2012</u>	<u>2011</u>
Bond Issuance Cost	\$ 228,919	\$ 465,546
Less:		
Accumulated Amortization	<u>63,870</u>	<u>277,400</u>
Net Deferred Charges	\$ <u>165,049</u>	\$ <u>188,146</u>

NOTE 6 LONG-TERM DEBT

Long-Term Debt consisted of the following at December 31:

	<u>2012</u>	<u>2011</u>
2003 Series A, Sewer Revenue Bonds	\$ -	\$ 7,330,000
2003 Series B, Sewer Revenue Bonds	-	50,000
2003 Series C, Sewer Revenue Bonds	-	135,000
2010 Series, Sewer Revenue Refunding Bonds	3,815,000	4,385,000
2012 Series, Sewer Revenue Refunding Bonds	<u>5,870,000</u>	<u>-</u>
Total Long-term debt	9,685,000	11,900,000
Unamortized Bond Premium	579,017	169,167
Unamortized Bond Discount	-	(33,287)
Current Portion	(<u>1,085,000</u>)	(<u>1,835,000</u>)
Net Long-term debt	\$ <u>9,179,017</u>	\$ <u>10,200,880</u>

**TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

NOTE 6 LONG-TERM DEBT (continued)

2010 Sewer Revenue Refunding Bonds

The Sewer Revenue Refunding Bonds, Series 2010 were authorized for the purpose of refunding \$5,055,000 of the outstanding principle amount of the Authority's Sewer Revenue Bonds, Series 1998, and to provide funds to pay all fees and expenses incurred with the issuance of the Bonds. The Bonds consist of \$4,970,000 in Serial Bonds which mature annually on July 1, 2011 through 2018. Interest during that period ranges from 3.000% to 4.000% payable semi-annually on January 1 and July 1.

2012 Sewer Revenue Refunding Bonds

The Sewer Revenue Refunding Bonds, Series 2012 were authorized for the purpose of refunding \$6,250,000 of the outstanding principle amount of the Authority's Sewer Revenue Bonds, Series 2003A, and to provide funds to pay all fees and expenses incurred with the issuance of the Bonds. The Bonds consist of \$5,930,000 in Serial Bonds which mature annually on July 1, 2012 through 2022. Interest during that period ranges from 3.000% to 4.000% payable semi-annually on January 1 and July 1.

Annual Debt Service

The following table sets forth the annual debt service (budgetary basis) of the Authority for all bonds outstanding:

<u>12 Month Period Ending Dec 31,</u>	<u>2010</u>	<u>2012 Series A</u>	<u>Total Debt Service</u>
2013	\$ 725,700	\$ 719,300	\$ 1,445,000
2014	728,150	719,300	1,447,450
2015	725,000	723,850	1,448,850
2016	725,200	717,800	1,443,000
2017	719,400	721,000	1,440,400
2018	722,800	718,200	1,441,000
2019	-	719,600	719,600
2020	-	720,000	720,000
2021	-	719,400	719,400
2022	-	722,800	722,800
	<u>\$ 4,346,250</u>	<u>\$ 7,201,250</u>	<u>\$ 11,547,500</u>

**TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

NOTE 6 LONG-TERM DEBT (continued)

The following table sets forth the debt service requirements for principal and interest:

12 Month Period Ended <u>Dec. 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 1,085,000	\$ 360,000	\$ 1,445,000
2014	1,120,000	327,450	1,447,450
2015	1,155,000	293,850	1,448,850
2016	1,190,000	253,000	1,443,000
2017	1,235,000	205,400	1,440,400
2018-2022	<u>3,900,000</u>	<u>422,800</u>	<u>4,322,800</u>
	<u>\$ 9,685,000</u>	<u>\$ 1,862,500</u>	<u>\$ 11,547,500</u>

Changes in the outstanding debt for 2012 are as follows:

<u>Issue</u>	Balance <u>Dec. 31, 2011</u>	<u>Issued</u>	Refunded or <u>Paid</u>	Balance <u>Dec. 31, 2012</u>
Series 2003A	\$ 7,330,000	\$ -	\$ 7,330,000	\$ -
Series 2003B	50,000	-	50,000	-
Series 2003C	135,000	-	135,000	-
Series 2010	4,385,000	-	570,000	3,815,000
Series 2012	<u>-</u>	<u>5,930,000</u>	<u>60,000</u>	<u>5,870,000</u>
	<u>\$ 11,900,000</u>	<u>\$ 5,930,000</u>	<u>\$ 8,145,000</u>	<u>\$ 9,685,000</u>

NOTE 7. SECURITY HELD FOR MEMBER MUNICIPALITIES

Service agreements with member municipalities provide that payments shall be at 102% of the member municipality's obligation for sewer treatment services. The additional 2% shall be deposited to the credit of the municipality in a Sewer Rent Reserve Account until deposits and interest earned in investment of such amounts equals the next two quarterly payments to become due from the member municipality.

Investment accounts have been established for each of the member municipalities as directed by the individual governing bodies.

**TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

NOTE 8 COMPENSATED ABSENCES

Per the Authority's "Personnel Code", its employees are entitled to sick leave benefits and vacation time.

Sick Leave

Sick leave allowances are determined as follows:

After one year of employment, an employee will be allowed 15 days sick leave in each twelve month period. Sick leave eligibility will be credited on the basis of one and one-quarter days for each month in which the employee is on the payroll.

Unused sick leave may be accumulated from year to year without a limit. An employee is entitled to use the accumulated sick leave with pay when needed.

Sick leave in excess of the accrued time may be granted at the discretion of the Authority when warranted by the employee's overall work record.

An employee who has used five days or less of sick time in a calendar year can elect to be compensated for up to five (5) of the remaining days and banking the remainder of the days in their accumulated sick time totals. The compensation for up to seven (7) unused days may be taken as a cash payment or as compensatory time off. If compensatory time off is chosen, this will be taken as straight time (i.e. 8 hours = 8 hours compensatory time off).

One half of the accumulated sick leave shall be paid upon retirement, permanent disability or death. Sick leave will not be granted as credit toward early retirement.

At December 31, 2012 and 2011, the computed contingent liability for accumulated sick leave compensation is \$389,275 and \$415,508, respectively. This is presented on the comparative balance sheet as an unrestricted noncurrent liability under to caption "Accrued Employee Benefits".

Vacation Time

It is the policy of the Authority that all employees be granted time away from work for the purpose of vacation. Each employee shall take advantage of the authorized vacation period for reasons of health, rest relaxation and pleasure; and therefore extra compensation in lieu of vacation will not be allowed. The amount of time granted shall be determined by the employee's length of service. A vacation year shall run from the anniversary date of each employee's employment date.

All vacation time earned in a given year must be used within the vacation year or be forfeited.

TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 8 COMPENSATED ABSENCES (continued)

Vacation Time (continued)

Employees who terminate their employment will receive vacation pay according to their accruals, provided the employee is in compliance with all requirements related to termination.

At December 31, 2012 and 2011, the computed contingent liability for accrued vacation time is \$77,118 and \$74,689, respectively. This is presented on the comparative balance sheet as an unrestricted current liability included with other accrued liabilities under the caption "Accrued Liabilities".

NOTE 9 PENSION PLAN

Description of the System

The Authority contributes to a cost-sharing multiple-employer plan, the Public Employees Retirement System ("PERS"). Members were required to contribute 6.5% of their annual covered salary up to July 1, 2012, at that date the rate increased from 6.5% to 6.64% of their annual covered salary. PERS is administered by the State of New Jersey Division of Pensions and Benefits and is included along with other state-administered pension trust and agency funds in the general-purpose financial statements of the State of New Jersey. Financial reports may be obtained for the Plan by writing to: New Jersey Division of Pensions and Benefits, P.O. Box 295, Trenton, NJ 08625-0295.

Membership

Membership in the PERS is mandatory for substantially all full-time employees of the State of New Jersey or any county, municipality, school district or public agency, provided the employee is not required to be a member of another state-administered retirement system or other state or local jurisdiction. Since PERS covers public employees throughout the State separate records are not maintained for each reporting unit; accordingly, the actuarial data for the employees of the Authority who are members of PERS are not available.

Contributions

The contribution policy for the PERS is set by N.J.S.A. 43:15A, Chapter 62, P.L. of 1994 and Chapter 115, P.L. of 1998, and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. Employers are required to contribute at an actuarially-determined rate. The required employer contributions for 2012 and 2011 were \$162,008 and \$155,608, respectively. The annual employer contribution includes funding for basic retirement allowances, cost-of-living adjustments, the cost of medical premiums after retirement for qualified retirees, and noncontributory death benefits. The Authority contribution to the plan for the past three years are as follows:

**TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

NOTE 9 PENSION PLAN (continued)

<u>Year</u>	<u>PERS</u>
2012	\$162,008
2011	155,608
2010	124,589

All contributions were equal to the required contributions for each of the three years, respectively.

In 2004 the Authority deferred a portion of their pension obligation as allowed. The present value of the deferral at December 31, 2012 and 2011 is \$57,206 and \$59,350, respectively. This amount is included as an accrued liability on the balance sheet. The Authority is obligated to pay \$6,673 per year for 15 years beginning in 2012 to pay back the deferral. The State is charging 8.25% interest.

NOTE 10 POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (“OPEB”)

A. Plan Description

In addition to the pension benefits described in Note 9, the Authority contributes to the New Jersey State Health Benefits Program (SHBP), a cost-sharing, multiple-employer defined benefit post-employment healthcare plan administered by the State of New Jersey Division of Pensions. SHBP was established in 1961 under N.J.S.A. 52:14-17.25 et seq., governing the operation and administration of the program are found in Title 17, Chapter 9 of the New Jersey Administrative Code. SHBP provides medical, prescription drugs, mental health/substance abuse, and Medicare Part B reimbursement to retirees and their covered dependents.

The SHBP was extended to employees, retirees, and dependents of participating local public employers in 1964. Local employers must adopt a resolution to participate in the SHBP. The Authority provides post-employment health care benefits to employees and their spouses upon retirement after twenty-five years of service to the Authority and remains in effect until the employee becomes Medicare eligible. The plan can be amended by the Authority subject to applicable and employment agreements and resolutions.

The State Health Benefits Commission is the executive body established by statute to be responsible for the operation of the SHBP. The State of New Jersey Division of Pensions and Benefits issues a publicly available financial report that includes the financial statements and required supplementary information for the SHBP. That report may be obtained by writing to: State of New Jersey Division of Pensions and Benefits, P.O. Box 295, Trenton, NJ 08625-0295 or by visiting their website.

**TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

NOTE 10 POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (“OPEB”) (continued)

B. Funding Policy

Participating employers are contractually required to contribute based on the amount of premiums attributable to their retirees. Post employment health benefits under the plan have been funded on a pay-as-you-go basis since 1994. Prior to 1994, medical benefits were funded on an actuarial basis.

Contributions to pay for health premiums of participating retirees in the SHBP are billed to the Authority on a monthly basis. The Authority currently contributes on a pay-as-you-go basis based upon monthly invoices from the State of New Jersey Division of Pensions. Employees are not required to contribute. Contributions to the plan for the last three years and the number of former employees eligible for and participating in the post employment health care benefits program as of the respective year ended December 31 was as follows:

<u>Year</u>	<u>Contribution</u>	<u>Number of Employees</u>
2012	\$ 88,578	7
2011	86,987	7
2010	87,969	7

All contributions were equal to the required contributions for each of the three years respectively.

NOTE 11 RISK MANAGEMENT

Health insurance coverage for the Authority’s employees is obtained through the New Jersey State Health Benefits Program (“SHBP”). SHBP provides the following basic benefit coverage to all participants: hospital, surgical, group major medical, prescription drug coverage for active and qualified retired Authority employees and their families. Worker’s compensation is obtained through the New Jersey Utilities Joint Insurance Fund, a public entity risk pool. General liability and property coverage is provided by Zurick American Insurance Company; general liability coverage is in the amount of \$1,000,000 per occurrence and property coverage is in the amount of \$1,000,000 combined single limit. A commercial umbrella policy from American Alternative Insurance Company increases the limits to \$10,000,000 for each occurrence and in the aggregate for general liability and property coverage.

There have been no reductions in insurance coverage from the prior year. Additionally, the amount of settlements has not exceeded insurance coverage in the past three years.

**TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

NOTE 12 CONTINGENCIES

The Authority is subject to extensive federal and state environmental regulations. The Authority's management is not aware of any violations that may have a material effect on the financial statements.

NOTE 13 SUBSEQUENT EVENTS

Management has evaluated subsequent events through July 8, 2013, the date the financial statements were issued.

The Authority has no reportable subsequent events.

SUPPLEMENTARY INFORMATION

TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY
NEPTUNE, NEW JERSEY

SCHEDULE OF OPERATING REVENUES AND COSTS FUNDED BY
OPERATING REVENUES
Year Ended December 31, 2012
(With Comparative Actual Amounts for the Year Ended December 31, 2011)

	2012 Budget	2012 Actual	Variance	2011 Actual
Operating Revenues:				
Service Charges	\$ 7,502,200	\$ 7,502,200		\$ 7,502,200
Interest Income	40,000	21,396	\$ (18,604)	46,994
Miscellaneous Income		1,451	1,451	2,090
Total Budget	\$ 7,542,200	\$ 7,525,047	\$ (17,153)	\$ 7,551,284
Operating Expenses:				
Personel Costs and Benefits:				
Administrative Salaries and Wages	\$ 137,500	\$ 127,735	\$ 9,765	\$ 124,818
Operational Salaries and Wages	1,500,000	1,550,831	(50,831)	1,486,046
Pension	163,000	162,008	992	216,444
Hospitalization & Dental	388,000	390,428	(2,428)	359,378
Prescription Plan	76,500	77,957	(1,457)	67,550
Payroll Taxes	140,000	134,972	5,028	128,168
Total Personel Costs and Benefits	2,405,000	2,443,931	(38,931)	2,382,404
Administrative and General Expenses				
Insurance	218,000	172,004	45,996	204,029
Travel	4,000	105	3,895	680
Training	9,500	4,569	4,931	4,977
Postage	2,000	872	1,128	1,155
Telephone	15,000	13,111	1,889	12,939
Office Supplies and Equipment	17,000	9,968	7,032	18,709
Maintenance Agreements	7,000	5,195	1,805	5,145
Books and Publications	1,000	268	732	491
Advertising	3,000	1,627	1,373	682
Licensing Fees	50,000	18,440	31,560	44,397
Affiliation Fees	7,000	6,206	794	5,831
Administrative	9,200	5,868	3,332	1,252
Auditing and Financial Consulting	40,000	28,725	11,275	28,598
Legal and Legal Consulting	53,000	37,956	15,044	38,832
Trustee Fees	5,000	5,250	(250)	5,000
Total Administrative and General Expenses	440,700	310,164	130,536	372,717

TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY
NEPTUNE, NEW JERSEY

SCHEDULE OF OPERATING REVENUES AND COSTS FUNDED BY
OPERATING REVENUES
Year Ended December 31, 2012
(With Comparative Actual Amounts for the Year Ended December 31, 2011)

	2012 Budget	2012 Actual	Variance	2011 Actual
Plant, System and Maintenance Expenses				
Electric	775,000	535,910	239,090	607,430
Fuel Oil	12,000	3,557	8,443	4,735
Water	7,000	5,767	1,233	5,911
Chemical/Odor Control	325,000	186,320	138,680	179,935
Janitorial Supplies	9,000	4,233	4,767	5,247
Equipment and Maintenance	380,000	195,266	184,734	175,734
Natural Gas	130,000	93,926	36,074	92,526
Uniforms	8,000	7,911	89	7,198
Lab Supplies	40,000	22,037	17,963	27,582
Lubricants	13,000	8,258	4,742	8,414
Sodium Hypochlorite	130,000	97,534	32,466	99,847
Sludge Processing	275,000	385,505	(110,505)	223,153
Ocean Outfall	70,000	14,000	56,000	0
Gasoline	12,000	13,455	(1,455)	11,085
Vehicle Maintenance	10,000	7,495	2,505	6,153
Engineering and Engineering Consulting	125,000	53,016	71,984	73,473
Total Plant, System and Maintenance Expenses	<u>2,321,000</u>	<u>1,634,190</u>	<u>686,810</u>	<u>1,528,423</u>
Total Operating Expenses	5,166,700	4,388,285	778,415	4,283,544
Other Costs Funded by Operating Revenues:				
Capital Outlay:				
Plant Improvements and Equipment	664,000	453,094	210,906	248,007
Total Capital Outlay	<u>664,000</u>	<u>453,094</u>	<u>210,906</u>	<u>248,007</u>
Debt Service:				
Bond Interest	446,000	304,341	141,659	468,136
Other Interest		4,529	(4,529)	4,523
Bond Principal	1,835,000	1,895,000	(60,000)	1,810,000
Total Debt Service	<u>2,281,000</u>	<u>2,203,870</u>	<u>77,130</u>	<u>2,282,659</u>
Total Other Costs Funded by Operating Revenues	<u>2,945,000</u>	<u>2,656,964</u>	<u>288,036</u>	<u>2,530,666</u>
Total Costs Funded by Operating Revenues	<u>8,111,700</u>	<u>7,045,249</u>	<u>1,066,451</u>	<u>6,814,210</u>
Excess (Deficit) of Revenues over Costs	<u>(569,500)</u>	<u>479,798</u>	<u>1,049,298</u>	<u>737,074</u>
Total Budget	\$ <u>7,542,200</u>	\$ <u>7,525,047</u>	\$ <u>(17,153)</u>	\$ <u>7,551,284</u>

TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY
NEPTUNE, NEW JERSEY

SCHEDULE OF OPERATING REVENUES AND COSTS FUNDED BY
OPERATING REVENUES
Year Ended December 31, 2012
(With Comparative Actual Amounts for the Year Ended December 31, 2011)

	2012 Budget	2012 Actual	Variance	2011 Actual
Reconciliation of Budgetary Basis to Net Income				
Excess of Revenues over Costs		\$ 479,798		\$ 737,074
Capitalized Plant Improvements		453,094		248,007
Gain on sale of fixed assets		2,100		5,370
Disaster relief aid		59,566		0
Loss on Bond Refunding		(202,904)		0
Depreciation Expense		(1,090,968)		(1,079,443)
Amortization of Deferred Charges		(38,554)		(42,534)
Debt Service - Bond Principal		<u>1,895,000</u>		<u>1,810,000</u>
Net Income		<u>\$ 1,557,132</u>		<u>\$ 1,678,474</u>

COMMENTS AND RECOMMENDATIONS

**TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY
NEPTUNE, NEW JERSEY**

**COMMENTS AND RECOMMENDATIONS
YEAR ENDED DECEMBER 31, 2012 AND 2011**

None noted.